

HANCOCK COUNTY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018
with
INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Hancock County School District
Hawesville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Hancock County School District (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities*, and *State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Submission Instructions*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Hancock County School District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2018, the District adopted new accounting guidance, GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and postemployment benefits other than pension plans information on pages 4 through 11 and 51 through 64 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedules of receipts, disbursements, and due to student groups related to school activity funds are presented for purposes of additional analysis, and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2, *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedules of receipts, disbursements, and due to student groups, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of receipts, disbursements, and due to student groups, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky

November 12, 2018

HANCOCK COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

Year ended June 30, 2018

As management of the Hancock County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The ending General Fund balance on June 30, 2018 was \$4,471,210. Of this amount, \$1,252,389 is the balance in the Commonwealth Settlement account leaving a true ending General Fund balance of \$3,218,821.
- Property tax rates were set by the Board at 63.9 cents and the motor vehicle tax rate was set at 40 cents for the 2017-18 school year.
- The General Fund had \$12.5 million in revenue excluding state on-behalf payments which primarily consists of SEEK (state funding), property, motor vehicle and utility taxes. Excluding interfund transfers and state on-behalf payments there were \$12.5 million in General Fund expenditures.
- District certified and classified staff salary scales remained the same as no increase was given other than step increases.
- A total of \$34,253 was paid in earned sick leave to those who retired during or at the end of the 2018-17 school year by the General Fund.
- The guaranteed SEEK base remained the same as FY17 which makes the per pupil funding \$3,981 per pupil. The assessment amount for our county increased by approximately \$37 million and our prior year end of year AADA increased by 5.58 students. The District observed a small increase in our home and hospital count by 12 students, as well as an increase in the exceptional child count of 33 students, and transportation count observed an increase in growth of 24 students. Overall the District had a decrease in SEEK revenue of \$95,873 during the FY18 school year.
- Lewisport Shopping Center was purchased in 2011 and has served as our vocational center for Hancock County High School. We received revenue in the amount of \$60,869 in rental income from the shopping center tenants.

- The Board approved to supply all students at Hancock County High School with iPads beginning with the 2011-12 school year. The Board entered into a 3-year lease with Apple Computer at the yearly cost of \$90,471 with a final cost of \$1.00 per iPad to purchase them at the end of the lease. Five hundred student iPads were leased through this agreement. This original lease was completed at the end of the FY14 school year. These original iPads were moved to Hancock County Middle School at the beginning of the FY15 school year and the district entered into another 3-year lease for new iPads for Hancock County High School. Five hundred and fifty four iPads were leased through this agreement and the yearly lease payment is \$90,017. This lease was continued into the fourth year of the agreement during FY18.
- Our schools collaborate with other local businesses, industries, and community to provide expanded opportunities for our students. As a District, we have identified Student Engagement, Project Based Learning, and Standards Based Learning/Grading as our priorities to which we commit long-term.
- The District continues to provide additional services to our students by securing grants each year. These grants provide additional funds for staffing and programs that would not be available to students if the District did not secure these available monies. The District strives to secure all resources that are available to provide resources to promote success in our students and skill enhancements to our staff.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to private-sector business.

The statement of net position presents information on all of the District's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. The only proprietary funds are our community education, after school care and food service operations. All other activities of the District are included in the governmental funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$2.1 million as of June 30, 2018.

The largest portion of the District's net assets reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment, and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

NET POSITION FOR THE PERIOD ENDING JUNE 30, 2018

The assets, liabilities and net position of the governmental activities of the District are as follows:

	Governmental		Business-Type		Total	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Current Assets	4,853,017	4,824,163	342,174	320,051	5,195,191	5,144,214
Noncurrent Assets	18,157,743	19,063,766	133,605	172,109	18,291,348	19,235,875
TOTAL ASSETS	23,010,760	23,887,929	475,779	492,160	23,486,539	24,380,089
DEFERRED OUTFLOWS OF RESOURCES						
	4,553,671	2,427,401	-	-	4,553,671	2,427,401
Current Liabilities	1,563,415	1,491,166	-	-	1,563,415	1,491,166
Noncurrent Liabilities	23,374,469	16,681,216	-	-	23,374,469	16,681,216
TOTAL LIABILITIES	24,937,884	18,172,382	-	-	24,937,884	18,172,382
DEFERRED INFLOWS OF RESOURCES						
	1,011,073	316,768	-	-	1,011,073	316,768
Net Position:						
Investment in capital assets (net of debt)	6,811,433	6,557,968	133,605	172,109	6,945,038	6,730,077
Restricted for:						
Capital Projects	24,702	24,702	-	-	24,702	24,702
Other Purposes	-	-	-	-	-	-
Unrestricted	(5,220,661)	1,243,510	342,174	320,051	(4,878,487)	1,563,561
TOTAL NET POSITION	1,615,474	7,826,180	475,779	492,160	2,091,253	8,318,340

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Comments on Budget Comparisons

The difference between original and final budget figures occurred due to:

- Final staffing/salary adjustments were complete for the final budget phase.
- Assessment and ADA figures were finalized and adjustments made to SEEK and ad valorem taxes.
- Final grant awards were in place.
- All adjustments to employer benefits were finalized and reflected in budget.
- Additional maintenance needs.
- iPad lease payment.
- Shopping Center/Tech Center rental income projection.

- The fringe benefit rate that increased the most in 2017-18 was the amount the Board has to pay for CERS. The rate changed from 18.68% to 19.18%. All the other rates remained the same.

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2018.

	Governmental		Business-Type		Total	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenues:						
From general sources:						
Property Tax	5,236,402	4,790,300	-	-	5,236,402	4,790,300
Motor Vehicle Tax	253,456	248,965	-	-	253,456	248,965
Utility Tax	1,231,430	1,115,239	-	-	1,231,430	1,115,239
Other Tax	-	-	-	-	-	-
Transportation	-	-	-	-	-	-
Investments	49,948	36,811	1,711	1,657	51,659	38,468
Other Sources	62,461	428,275	100	1,313	62,561	429,588
Gain (Loss) Fixed Assets	-	-	-	-	-	-
State & Federal Grants	6,878,057	6,810,187	-	-	6,878,057	6,810,187
Program:						
Operating Grants	5,550,380	4,387,108	756,718	675,592	6,307,098	5,062,700
Capital Grants	357,994	367,601	-	-	357,994	367,601
Charges for Services	-	-	374,090	379,338	374,090	379,338
TOTAL REVENUES	19,620,128	18,184,486	1,132,619	1,057,900	20,752,747	19,242,386
Expenses:						
Instruction	12,265,461	10,147,785	-	-	12,265,461	10,147,785
Student Support	840,400	840,541	-	-	840,400	840,541
Instructional Support	901,883	953,817	-	-	901,883	953,817
District Administration	729,409	429,810	-	-	729,409	429,810
School Administration	1,052,611	1,060,205	-	-	1,052,611	1,060,205
Business Support	670,729	563,204	-	-	670,729	563,204
Plant Operations	1,582,189	1,408,973	-	-	1,582,189	1,408,973
Student Transportation	1,388,759	1,252,220	-	-	1,388,759	1,252,220
Facilities Acquisition	-	-	-	-	-	-
Other	22,615	205,839	-	-	22,615	205,839
Community Support	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Debt Interest and Amortization	357,994	367,601	-	-	357,994	367,601
Food Service	-	-	1,054,868	1,033,438	1,054,868	1,033,438
Community Education/Child Care	-	-	94,133	85,548	94,133	85,548
TOTAL EXPENDITURES	19,812,050	17,229,995	1,149,001	1,118,986	20,961,051	18,348,981
Transfers In	-	-	-	-	-	-
Transfers Out	-	-	-	-	-	-
Change In Net Position	(191,922)	954,491	(16,382)	(61,086)	(208,304)	893,405
Net Position Beginning	1,807,396	6,871,689	492,161	553,246	2,299,557	7,424,935
Net Position Ending	1,615,474	7,826,180	475,779	492,160	2,091,253	8,318,340

GENERAL FUND REVENUE

The majority of revenue was derived from state funding *60% with approximately **40% coming from local sources.

*State Revenue \$9,997,452 divided by Total Revenue \$16,648,448 is equal to 60%

**Total Local \$6,628,535 divided by Total Revenue \$16,648,448 is equal to 40%

BUDGET ALLOCATION

Approximately 76% or \$12,790,419 of the General Fund budget was expended for instruction/administration at the school level, some of which was directed by the Site-Based Decision Making Councils. Approximately 4% of the funds not directly under control of SBDM was spent servicing children with special needs. The amount of funds going to children with special needs is derived from the total budgeted for all special education expenditures including salaries.

SCHOOL ALLOCATION

Regular instruction accounts for 81% of the school level expenditures.

Total instruction includes regular instructional staff, instructional support staff such as support personnel and classroom assistants and other expenditures to support instruction. Total instruction expenditures are \$10,335,121 for regular instruction and \$1,428,865 instructional support staff for a total of 11,763,986.

CENTRAL OFFICE ALLOCATION

Central support services expenditures were transportation \$1,283,897, maintenance & operations \$1,492,054, business support \$501,611 and district administration of \$670,627 for a total central office support expense of \$3,948,189 or 24%.

OTHER MAJOR FUNDS

Special Revenue Fund is categorized as a major fund. Revenues from state and federal grants decreased by \$160,525 from the previous fiscal year.

Food Service Fund is categorized as a major fund. Food service is a business-type activity. This program had revenues of \$1,080,078 for fiscal year 2018. Expenditures for this program were \$1,054,868 for fiscal year 2018. This meant an increase in net position for Food Service of \$25,210. The Board of Education continues to examine the food service operation in an effort to be self-operating without assistance from the General Fund. The business activity receives no support from tax revenues.

CURRENT ISSUES

Hancock County Schools continue to budget conservatively and adhere to the staffing policies that are currently in place. The FY18 showed a slight decrease in EOY AADA of 1501.92 students compared to the FY17 school year.

Property assessment for the 2017-18 fiscal year had an increase of \$36 million compared to FY17. The Board approved the 2.2 cents increase rate of 63.9 cents for the 2017-18 fiscal year. The Board approved a motor vehicle tax rate of 40 cents per \$100 of assessed value upon all motor vehicles and watercraft. For fiscal year 2017-2018 there was an increase in real property tax revenue of \$427,576 and an increase in motor vehicle tax revenue of \$4,491. The utility tax collections increased by \$116,191.

Hancock County Public Schools have a proud tradition of K-12 academic excellence. As a district, we are being strategic in our long-term planning for professional learning around the following initiatives: Project Based Learning, Standards Based Learning & Teaching, Increasing Rigor through Research-Based Instruction and Student Engagement. Kentucky is currently in a transition period for accountability. There are no rankings or comparable composite scores released. With that said, Hancock County Schools held steady in student achievement and expects to be on track for whatever the new state system looks like moving forward.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$330,471 in contingency.

It is extremely important that the District continue to budget conservatively. The District receives approximately 35 percent of its General Fund revenue each year through the SEEK formula. The SEEK forecasts from the State should be considered only an estimate of state revenue. If the State's revenue falls below their own revenue projections, an adjustment will be made in the funding formula. The District should always be prepared for such reductions in funding.

Approximately 38 percent of the District's General Fund revenue each year is from local property taxes. The majority of this revenue does not come to the District until the fifth month of the fiscal year. The General Fund's beginning balance must be used to absorb much of the first four months expenditures. Provisions must always be made to have a significant beginning balance to start the year.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Board's finances and to reflect the Board's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to the Superintendent or to Kara Eckles, Treasurer, (270) 927-6914, or by mail at 83 State Route 3543, Hawesville, Kentucky 42348.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION June 30, 2018

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,035,057	\$ 311,779	\$ 4,346,836
Receivables:			
Taxes	700,000	-	700,000
Intergovernmental – Federal	117,960	-	117,960
Inventory	-	30,395	30,395
Net capital assets	<u>18,157,743</u>	<u>133,605</u>	<u>18,291,348</u>
Total assets	23,010,760	475,779	23,486,539
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refundings	696,532	-	696,532
Deferred outflows of resources related to pension expense	3,167,849	-	3,167,849
Deferred outflows of resources related to other postemployment benefits	<u>689,290</u>	<u>-</u>	<u>689,290</u>
Total deferred outflows of resources	4,553,671	-	4,553,671
LIABILITIES			
Accrued liabilities	38,872	-	38,872
Unearned revenue	209,885	-	209,885
Current maturities of bond obligations	1,181,516	-	1,181,516
Current portion of accumulated sick leave	108,348	-	108,348
Interest payable	24,794	-	24,794
Noncurrent net pension liability	6,119,984	-	6,119,984
Noncurrent net other postemployment benefits liability	6,740,933	-	6,740,933
Noncurrent maturities of bond obligations	10,140,000	-	10,140,000
Noncurrent portion of accumulated sick leave	321,000	-	321,000
Noncurrent portion of accrued expense	<u>52,552</u>	<u>-</u>	<u>52,552</u>
Total liabilities	24,937,884	-	24,937,884
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension expense	841,022	-	841,022
Deferred inflows of resources related to other postemployment benefits	<u>170,051</u>	<u>-</u>	<u>170,051</u>
Total deferred inflows of resources	1,011,073	-	1,011,073
NET POSITION			
Invested in capital assets, net of related debt	6,811,433	133,605	6,945,038
Restricted for:			
Capital expenditures	24,702	-	24,702
Unrestricted	<u>(5,220,661)</u>	<u>342,174</u>	<u>(4,878,487)</u>
Total net position	\$ 1,615,474	\$ 475,779	\$ 2,091,253

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2018

	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
Expenses				Total
FUNCTION/PROGRAMS				
Governmental activities				
Instruction	\$ 12,265,461	\$ 3,512,169	\$ (8,753,292)	\$ (8,753,292)
Student support services	840,400	313,867	(526,533)	(526,533)
Instructional staff support services	901,883	456,960	(444,923)	(444,923)
District administration	729,409	115,003	(614,406)	(614,406)
School administration	1,052,611	392,331	(660,280)	(660,280)
Business support services	670,729	276,346	(394,383)	(394,383)
Plant operations and maintenance	1,582,189	213,554	(1,368,635)	(1,368,635)
Student transportation	1,388,759	259,933	(1,128,826)	(1,128,826)
Food service operation	164	2,723	2,559	2,559
Community services	22,451	7,494	(14,957)	(14,957)
Interest	357,994	-	-	-
		357,994		
Total governmental activities	19,812,050	5,550,380	(13,903,676)	(13,903,676)
Business-type activities				
Food service	1,054,868	756,718	-	24,148
Other business-type activities	94,133	-	-	(42,341)
Total business-type activities	1,149,001	756,718	-	(18,193)
Total primary government	\$ 20,961,051	\$ 6,307,098	(13,903,676)	(13,921,869)
		General revenues		
		Taxes:		
		Property	5,236,402	5,236,402
		Motor vehicle	253,456	253,456
		Utilities	1,231,430	1,231,430
		Earnings on investments	49,948	51,659
		State grants	6,597,115	6,597,115
		Federal grants	280,942	280,942
		Other local amounts	22,461	22,561
		Miscellaneous	40,000	40,000
		Total general revenues	13,711,754	13,713,565
		Change in net position	(191,922)	(208,304)
		Net position as of July 1, 2017, as previously reported	492,161	8,318,341
		Change in accounting principle	(6,018,784)	(6,018,784)
		Net position as of July 1, 2017, as restated	1,807,396	2,299,557
		Net position as of June 30, 2018	\$ 1,615,474	\$ 2,091,253

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2018

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Debt Service Fund	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 3,918,430	\$ 91,925	\$ -	\$ -	\$ 24,702	\$ -	\$ 4,035,057
Receivables:							
Taxes	700,000	-	-	-	-	-	700,000
Intergovernmental – Federal	-	117,960	-	-	-	-	117,960
Total assets	<u>\$ 4,618,430</u>	<u>\$ 209,885</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,702</u>	<u>\$ -</u>	<u>\$ 4,853,017</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accrued liabilities	\$ 38,872	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38,872
Unearned revenue	-	209,885	-	-	-	-	209,885
Current portion of accumulated sick leave	108,348	-	-	-	-	-	108,348
Total liabilities	147,220	209,885	-	-	-	-	357,105
Fund balances							
Restricted for:							
Capital expenditures	-	-	-	-	24,702	-	24,702
Committed to future sick leave	532,336	-	-	-	-	-	532,336
Assigned to purchase obligations	2,333	-	-	-	-	-	2,333
Unassigned	3,936,541	-	-	-	-	-	3,936,541
Total fund balances	<u>4,471,210</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,702</u>	<u>-</u>	<u>4,495,912</u>
Total liabilities and fund balances	<u>\$ 4,618,430</u>	<u>\$ 209,885</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,702</u>	<u>\$ -</u>	<u>\$ 4,853,017</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2018

Total fund balances – governmental funds	\$ 4,495,912
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$33,417,241, and the accumulated depreciation is \$15,259,498.	18,157,743
Deferred loss on bond refundings is not a current financial resource and therefore is not reported as deferred outflows of resources in governmental funds.	696,532
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(11,321,516)
Noncurrent portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(321,000)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(24,794)
Noncurrent net pension liability is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position. The deferred outflows of resources related to pension expense total \$3,167,849, the deferred inflows of resources related to pension expense total \$841,022, and the total net pension liability on the statement of net position is \$6,119,984.	(3,793,157)
Noncurrent net other postemployment benefits liability is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position. The deferred outflows of resources related to OPEB expense total \$689,290, the deferred inflows of resources related to OPEB expense total \$170,051, and the net OPEB liability on the statement of net position is \$6,740,933.	(6,221,694)
Noncurrent portion of accrued expense is not reported in the government fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(52,552)
Total net position – governmental activities	<u>\$ 1,615,474</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS Year ended June 30, 2018

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Debt Service Fund	Total Governmental Funds
Revenues							
From local sources:							
Taxes:							
Property	\$ 4,812,759	\$ -	\$ -	\$ 423,643	\$ -	\$ -	\$ 5,236,402
Motor vehicle	253,456	-	-	-	-	-	253,456
Utilities	1,231,430	-	-	-	-	-	1,231,430
Earnings on investments	49,948	-	-	-	-	-	49,948
Other local	280,942	16,492	-	-	-	-	297,434
Intergovernmental – State	9,997,452	721,937	150,617	166,021	-	802,308	11,838,335
Intergovernmental – Federal	22,461	650,662	-	-	-	-	673,123
Total revenues	16,648,448	1,389,091	150,617	589,664	-	802,308	19,580,128
Expenditures							
Current:							
Instruction	10,335,121	901,593	-	-	-	-	11,236,714
Student support services	786,912	53,488	-	-	-	-	840,400
Instructional staff support services	641,953	239,497	-	-	-	-	881,450
District administration	670,627	32,131	-	-	-	-	702,758
School administration	1,026,433	26,068	-	-	-	-	1,052,501
Business support services	501,611	167,944	-	-	-	-	669,555
Plant operations and maintenance	1,492,054	-	-	-	-	-	1,492,054
Student transportation	1,283,897	-	-	-	-	-	1,283,897
Non-instructional	164	-	-	-	-	-	164
Community services	21,766	-	-	-	-	-	21,766
Debt service	-	-	-	-	-	1,460,236	1,460,236
Total expenditures	16,760,538	1,420,721	-	-	-	1,460,236	19,641,495
Excess (deficit) of revenues over (under) expenditures	(112,090)	(31,630)	150,617	589,664	-	(657,928)	(61,367)
Other financing sources (uses)							
Miscellaneous	40,000	-	-	-	-	-	40,000
Operating transfers in	178,156	46,560	-	-	-	657,928	882,644
Operating transfers out	(127,433)	(14,930)	(150,617)	(589,664)	-	-	(882,644)
Total other financing sources (uses)	90,723	31,630	(150,617)	(589,664)	-	657,928	40,000
Net change in fund balance	(21,367)	-	-	-	-	-	(21,367)
Fund balance as of July 1, 2017	4,492,577	-	-	-	24,702	-	4,517,279
Fund balance as of June 30, 2018	\$ 4,471,210	\$ -	\$ -	\$ -	\$ 24,702	\$ -	\$ 4,495,912

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2018

Net change in total fund balances – governmental funds	\$ (21,367)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but are presented as assets in the statement of net position and depreciated over their estimated useful lives. Related depreciation expense is reported in the statement of activities. The difference is the depreciation expense (\$906,023).	(906,023)
Deferred loss on bond refundings is not reported as an expenditure in the governmental fund financial statements, but is capitalized and amortized over the life of the related bonds on the statement of activities.	(57,246)
Bond payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities and interest expense in the statement of net position and statement of activities, respectively.	1,159,488
Accrued expense related to noncurrent portion of accrued liability is recognized in the statement of activities, but not in the governmental fund financial statements because it will not be paid with existing financial resources.	26,277
Pension expense is recognized in the governmental fund financial statements as the total expenditures paid in the current year for the employer's portion of contributions. However, on the statement of activities, pension expense is calculated using the accrual basis of accounting which accounts for the increases and decreases in the net pension liability.	(172,141)
Other postemployment benefits expense is recognized in the governmental fund financial statements as the total expenditures paid in the current year for the employer's portion of contributions. However, on the statement of activities, OPEB expense is calculated using the accrual basis of accounting which accounts for the increases and decreases in the net OPEB liability.	(202,910)
Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources.	<u>(18,000)</u>
Change in net position – governmental activities	<u>\$ (191,922)</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

June 30, 2018

	School Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
ASSETS				
Current assets				
Cash	\$ 209,045	\$ 101,535	\$ 1,199	\$ 311,779
Inventory	<u>30,395</u>	<u>-</u>	<u>-</u>	<u>30,395</u>
Total current assets	239,440	101,535	1,199	342,174
Noncurrent assets				
Capital assets	710,445	-	8,596	719,041
Less accumulated depreciation	<u>578,797</u>	<u>-</u>	<u>6,639</u>	<u>585,436</u>
Total noncurrent assets	<u>131,648</u>	<u>-</u>	<u>1,957</u>	<u>133,605</u>
Total assets	371,088	101,535	3,156	475,779
NET POSITION				
Invested in capital assets	131,648	-	1,957	133,605
Unrestricted	<u>239,440</u>	<u>101,535</u>	<u>1,199</u>	<u>342,174</u>
Total net position	<u>\$ 371,088</u>	<u>\$ 101,535</u>	<u>\$ 3,156</u>	<u>\$ 475,779</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PROPRIETARY FUNDS

Year ended June 30, 2018

	School Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
Operating revenues				
Lunchroom sales	\$ 322,298	\$ -	\$ -	\$ 322,298
Tuition and fees	<u>-</u>	<u>51,411</u>	<u>381</u>	<u>51,792</u>
Total operating revenues	322,298	51,411	381	374,090
Operating expenses				
Salaries, wages, and benefits	552,264	79,855	-	632,119
Contract services	20,345	230	180	20,755
Materials and supplies	438,382	740	100	439,222
Depreciation	36,676	-	1,829	38,505
Other	<u>7,201</u>	<u>10,549</u>	<u>650</u>	<u>18,400</u>
Total operating expenses	<u>1,054,868</u>	<u>91,374</u>	<u>2,759</u>	<u>1,149,001</u>
Operating loss	(732,570)	(39,963)	(2,378)	(774,911)
Nonoperating revenues				
Federal grants	691,269	-	-	691,269
State grants	65,449	-	-	65,449
Interest income	1,062	649	-	1,711
Other	<u>-</u>	<u>-</u>	<u>100</u>	<u>100</u>
Total nonoperating revenues	<u>757,780</u>	<u>649</u>	<u>100</u>	<u>758,529</u>
Change in net position	25,210	(39,314)	(2,278)	(16,382)
Net position as of July 1, 2017	<u>345,878</u>	<u>140,849</u>	<u>5,434</u>	<u>492,161</u>
Net position as of June 30, 2018	<u>\$ 371,088</u>	<u>\$ 101,535</u>	<u>\$ 3,156</u>	<u>\$ 475,779</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

Year ended June 30, 2018

	<u>School Food Service Fund</u>	<u>Day Care Fund</u>	<u>Community Education Fund</u>	<u>Total Proprietary Funds</u>
Cash flows from operating activities				
Cash received from:				
Lunchroom sales	\$ 322,298	\$ -	\$ -	\$ 322,298
Tuition and fees	-	51,411	381	51,792
Cash paid to/for:				
Employees	(495,236)	(79,855)	-	(575,091)
Contract services	(20,345)	(230)	(180)	(20,755)
Materials and supplies	(414,655)	(740)	(100)	(415,495)
Other	(7,201)	(10,549)	(650)	(18,400)
Net cash used in operating activities	(615,139)	(39,963)	(549)	(655,651)
Cash flows from noncapital financing activities				
Government grants	675,963	-	-	675,963
Other	-	-	100	100
Net cash provided by noncapital financing activities	675,963	-	100	676,063
Cash flows from investing activities				
Receipt of interest income	1,062	649	-	1,711
Net cash provided by investing activities	1,062	649	-	1,711
Net increase (decrease) in cash	61,886	(39,314)	(449)	22,123
Cash as of July 1, 2017	147,159	140,849	1,648	289,656
Cash as of June 30, 2018	<u>\$ 209,045</u>	<u>\$ 101,535</u>	<u>\$ 1,199</u>	<u>\$ 311,779</u>
Reconciliation of operating loss to net cash used in operating activities				
Operating loss	\$ (732,570)	\$ (39,963)	\$ (2,378)	\$ (774,911)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	36,676	-	1,829	38,505
Donated commodities	23,727	-	-	23,727
State on-behalf payments	57,028	-	-	57,028
Net cash used in operating activities	<u>\$ (615,139)</u>	<u>\$ (39,963)</u>	<u>\$ (549)</u>	<u>\$ (655,651)</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – FIDUCIARY FUND

June 30, 2018

Student
Activity
Funds

ASSETS

Cash	\$ 302,845
Accounts receivable	<u>12,643</u>
Total assets	315,488

LIABILITIES

Accounts payable	14,475
Due to student groups/employees	<u>301,013</u>
Total liabilities	<u>315,488</u>

NET POSITION

\$ -

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2018

1. Basis of presentation and summary of significant accounting policies

Reporting entity – The Hancock County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Hancock County School District (District). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of those funding source entities. However, the District is not included in any other governmental reporting entity, and its Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the District's operation. The basic financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The District's basic financial statements include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the basic financial statements of the following organization are included in the accompanying basic financial statements:

Hancock County School District Finance Corporation – The Hancock County, Kentucky, Board of Education established the Hancock County School District Finance Corporation (Corporation) (a nonprofit, nonstock, public, and charitable corporation organized under the School Bond Act, KRS 273, and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board members of the Hancock County Board of Education also comprise the Corporation's Board of Directors.

Government-wide financial statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the District's financial activities, except for fiduciary funds. The statements distinguish between those District activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The District activities are generally financed through state funding, property and utility taxes, and federal, state, and local grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. Revenues from grants are recognized in the fiscal year in which eligibility requirements are met.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities, and each segment of the District's business-type activities. Direct expenses are those that are specifically associated with a service, program, or function. The District does not charge indirect expenses to programs or functions. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the District's general revenues.

Fund financial statements – Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each fund is presented in a separate column. Fiduciary funds are reported by fund type.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected within 60 days of year end are recognized as revenue.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when they come due for payment. General capital asset acquisitions are reported as expenditures in governmental funds, and proceeds of general long-term debt are reported as other financing sources.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Proprietary funds utilize the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services in connection with the funds' principal operations. The funds' principal operating revenues are food service charges and tuition and fees. Operating expenses include salaries and benefits, materials and supplies, administrative costs, and depreciation on capital assets.

Fiduciary funds utilize the economic resources measurement focus and the accrual basis of accounting.

Accounting principles generally accepted in the United States of America (GAAP) require the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds. Additionally, the District has determined certain other funds should be reported as major funds.

The District has the following funds:

a. Governmental fund types

The General Fund is the District's general operating fund and accounts for and reports all District revenues and expenditures not accounted for or reported in other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources restricted to expenditures for specified purposes other than debt or capital projects. This is a major fund of the District.

Capital Project Funds are used to account for and report financial resources restricted for capital outlays, including the acquisition or construction of capital facilities or other capital assets, and to provide financial resources for debt service requirements. Capital Projects Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that are held in trust.

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as capital outlay funds and is generally restricted for use in financing projects identified in the District's facility plan (including payment of bonded lease obligations). This is a major fund of the District.
2. The Facility Support Program (FSPK) Fund accounts for and reports funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
3. The School Construction Fund accounts for and reports proceeds from sales of bonds and other revenue to be used for authorized construction. This is a major fund of the District.

4. The Debt Service Fund accounts for and reports expenditures for debt service. This is a major fund of the District.

b. Proprietary fund types

The School Food Service Fund accounts for and reports school food service activities, primarily including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. This is a major fund of the District.

The Day Care Fund and the Community Education Fund are used to account for and report after-school child care and community education revenues and programs where a fee is charged for participating. These are major funds of the District.

c. Fiduciary fund type

Student Activity Funds account for and report activities of student groups and other types of activities requiring clearing accounts. These funds comply with *Accounting Procedures for Kentucky School Activity Funds* (Redbook).

Budgetary process – The District's budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with GAAP.

In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other local, state, and federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board.

The District does not budget for on-behalf payments, which are reported with the General Fund and the School Food Service Fund in the fund financial statements and the budgetary comparison supplementary information.

The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each year.

Additionally, the District must prepare an annual allocation to schools by March 1 of each year for the following fiscal year. This allocation must include the amount for certified and classified staff based on the District's staffing policy and the amount for the instructional supplies, materials, travel, and equipment.

Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each year. This budget must contain a 2% reserve.

Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of the current fiscal year.

The Board has the ability to amend the working budget. The working budget was amended during the year.

Cash and cash equivalents – The District considers certificates of deposit and money market accounts with maturities of three months or less to be cash and cash equivalents.

Inventory – Inventory which consists of food and supplies is recorded at the lower of cost, determined by the first-in first-out (FIFO) method or, market.

Deferred loss on bond refundings – Deferred loss on bond refundings represents losses equal to the principal amount borrowed to refund the principal amount outstanding on previous bond issues. These amounts are recognized as deferred outflows of resources on the accompanying statement of net position. The amounts are amortized over the life of the new bond or the life of the refunded bond (whichever is shorter), and included in interest expense on the accompanying statement of activities.

Deferred outflows and deferred inflows of resources related to pension expense and other postemployment benefits – Deferred outflows and deferred inflows of resources related to pension expense and other postemployment benefits (OPEB) represent District and OPEB contributions to multi-employer pension plans, after the measurement date (June 30, 2017) used to account for the pension and OPEB liabilities, the impact on pension and OPEB liabilities related to differences between expected and actual experience, changes of assumptions, net differences between projected and actual earnings on pension plan and OPEB investments, and changes in proportion and differences between District contributions and proportionate share of contributions on the accompanying statement of net position.

Interfund balances – On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as due from or to other funds. There were no interfund balances as of June 30, 2018.

Capital assets – General capital assets are those assets not specifically related to activities reported in the proprietary funds. Those assets generally result from expenditures in the governmental funds and are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective fund.

All capital assets are capitalized at cost (or estimated historical cost based on independent appraisals) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$3,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	10 years
Food service equipment	12 years
Community education equipment	5 years
Other	20 years

Accrued liabilities and long-term obligations – All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported in the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements if they will be liquidated with current resources. In general, payments made within 60 days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Unearned revenue – Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied.

Accumulated sick leave – Sick leave benefits are calculated using the vesting method, and accrued based on the District's estimates using historical trend information in the government-wide financial statements. The current portion of the liability is estimated based on anticipated payouts in the succeeding fiscal year.

Pensions and other postemployment benefits – For purposes of measuring the net pension and OPEB liability, deferred outflows and deferred inflows of resources related to pension and OPEB expense, pension and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and the Teachers' Retirement System (TRS), and additions to/deductions from CERS's and TRS fiduciary net position have been determined on the same basis as they are reported by CERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund balances – The District classifies its governmental fund balances as follows:

Nonspendable – This category includes funds that are not available to be spent because they are not in spendable format, or because they are legally required to remain intact. The District does not have any nonspendable funds as of June 30, 2018.

Restricted – This category includes resources that are restricted by state law to be used for certain purposes. The SEEK Capital Outlay Fund and the FSPK Fund are restricted to be used for future debt service or future construction projects. The School Construction Fund is restricted for future construction projects. The Debt Service Fund is restricted for debt service.

Committed – This category includes funds that have been designated for future use by the Board. Only the Board may commit funds and modify or rescind the commitment.

Assigned – This category represents funds that have been designated for existing purchase obligations. Assignments can be made by authorized members of management.

Unassigned – This category represents the remainder of the governmental fund balances that do not belong in any other fund balance classification.

When the District incurs an expenditure for which committed, assigned, or unassigned funds are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

When the District incurs an expenditure for which both restricted and unrestricted (assigned and unassigned, respectively) funds are available within a given fund, the District generally spends restricted funds first and unrestricted funds last.

Net position – Net position represents the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources. Amounts invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on the asset's use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When the District incurs an expenditure for which both restricted and unrestricted funds are available, the District considers restricted funds to have been spent first.

Interfund activity – Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after nonoperating revenues/expenses in proprietary funds.

Encumbrance accounting – Encumbrances are not liabilities, and therefore are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next fiscal year.

Estimates – The preparation of basic financial statements in accordance with GAAP requires the District's management to make estimates and assumptions that affect reported amounts of assets, deferred outflows and deferred inflows of resources, liabilities, net position/fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Fair value measurements – The District applies fair value measurements as prescribed by GASB Statement No. 72 which requires entities to determine fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participant as of the measurement date. This statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and applies in conjunction with other GASB Standards that require or permit fair value measurements and disclosures. The guidance requires impacted assets and liabilities to be measured and disclosed in one of three categories based on the significance and source of the inputs to their valuation. The hierarchy consists of three broad levels: Level 1, Level 2, and Level 3. Level 1 inputs have the highest priority and consist of observable unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access. Level 2 inputs include a) quoted prices for similar assets or liabilities in inactive markets, b) quoted prices for identical or similar assets or liabilities in inactive markets, c) inputs other than quoted prices that are observable for the asset or liability, and d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs have the lowest priority, are unobservable, and include judgments about the assumptions that market participants would use in pricing the asset or liability.

An asset's or liability's fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to its fair value measurement. Valuation techniques used are to maximize the use of observable inputs and minimize the use of unobservable inputs. Management uses specific valuation techniques based on the available inputs to measure the fair value of the District's impacted assets and liabilities. When available, management measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

These methods may produce a fair value calculation that may not be indicative of net realizable value, or reflective of future fair values. Furthermore, while management believes the valuation methods utilized are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain assets and liabilities could result in different fair value measurements as of June 30, 2018.

Subsequent events – The District's management has evaluated subsequent events through November 12, 2018, the date which the financial statements were available for issue. No subsequent events were of such a nature as to require disclosure.

New accounting pronouncements – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. This statement establishes new reporting and disclosure requirements for entities that provide postemployment benefits other than retirement and establishes criteria whereas these amounts may be accrued or disclosed in entity financial statements. The District adopted this statement effective July 1, 2017 (see Note 8) resulting in an increase in deferred outflows of resources related to other postemployment benefits of \$222,910, a \$6,241,694 increase in OPEB liability on the statement of net position, and a \$6,018,784 reduction in the District's net position as of July 1, 2017 on the statements of net position.

In June 2017, GASB issued Statement No. 87, *Leases* which increases the usefulness of governmental financial statements by requiring recognition of certain lease assets and liabilities for leases that are currently accounted for as operating leases. This statement is effective for reporting periods beginning after December 15, 2019. The District has not determined the impact this statement will have on future financial statements.

In April of 2018, GASB issued Statement Number 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement increases disclosures regarding the terms of borrowing arrangements. This statement is effective for periods beginning after June 15, 2018. The District has not determined the impact this statement will have on future financial statements.

2. Deposits with financial institutions

As of June 30, 2018, the carrying amount of the District's deposits with financial institutions was \$4,649,681, and its bank balance totaled \$6,334,718. Of the total bank balances, \$250,000 was covered by federal depository insurance, with the remainder covered by a collateral agreement with securities.

Cash and cash equivalents are commingled in various bank accounts. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and financial assistance programs, each cash and cash equivalent amount within the following funds is considered to be restricted:

Special Revenue Fund
School Construction Fund
Student Activity Funds

District funds are considered to be public funds and therefore their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds.

3. Taxes

The District's ad valorem property tax is levied each September 30 on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Taxes are due on January 2 and become delinquent after January 31 following the September 30 levy date.

The property tax rates assessed for the year ended June 30, 2018 were \$.639 per \$100 valuation for real property, \$.639 per \$100 valuation for business personal property, and \$.40 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3.0% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gas.

4. Capital assets

Capital asset activity for the fiscal year ended June 30, 2018 is as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2018</u>
Land	\$ 285,807	\$ -	\$ -	\$ 285,807
Land improvements	1,170,542	-	-	1,170,542
Buildings and improvements	26,156,259	-	-	26,156,259
Technology equipment	2,448,071	-	-	2,448,071
Vehicles	2,320,840	-	-	2,320,840
General equipment	1,034,518	-	-	1,034,518
Other	<u>1,204</u>	<u>-</u>	<u>-</u>	<u>1,204</u>
Total cost	33,417,241	-	-	33,417,241
Less accumulated depreciation:				
Land improvements	773,709	39,551	-	813,260
Buildings and improvements	8,828,287	630,306	-	9,458,593
Technology equipment	2,199,719	107,590	-	2,307,309
Vehicles	1,722,615	99,798	-	1,822,413
General equipment	828,433	28,718	-	857,151
Other	<u>712</u>	<u>60</u>	<u>-</u>	<u>772</u>
Total accumulated depreciation	<u>14,353,475</u>	<u>906,023</u>	<u>-</u>	<u>15,259,498</u>
Governmental activities net capital assets	<u>\$ 19,063,766</u>	<u>\$ (906,023)</u>	<u>\$ -</u>	<u>\$ 18,157,743</u>

<u>Business-Type Activities</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2018</u>
Food service equipment	\$ 710,445	\$ -	\$ -	\$ 710,445
Community education equipment	<u>8,596</u>	<u>-</u>	<u>-</u>	<u>8,596</u>
Total cost	719,041	-	-	719,041
Less accumulated depreciation:				
Food service equipment	542,121	36,676	-	578,797
Community education equipment	<u>4,810</u>	<u>1,829</u>	<u>-</u>	<u>6,639</u>
Total accumulated depreciation	<u>546,931</u>	<u>38,505</u>	<u>-</u>	<u>585,436</u>
Business-type activities net capital assets	<u>\$ 172,110</u>	<u>\$ (38,505)</u>	<u>\$ -</u>	<u>\$ 133,605</u>

Governmental activities depreciation expense is allocated to specific functions or programs on the statement of activities as follows:

Instruction	\$ 661,973
Instructional staff support services	20,433
District administration	26,651
School administration	110
Business support services	1,174
Plant operations and maintenance	90,135
Student transportation	104,862
Community services	<u>685</u>
Total depreciation expense	<u>\$ 906,023</u>

5. Bonded debt and lease obligations

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the Hancock County School District Finance Corporation.

The original amount of each issue, the issue date, and interest rate are summarized below:

<u>Issue</u>	<u>Proceeds</u>	<u>Interest Rates</u>
2007	\$ 3,585,000	3.45 – 4.18%
2009	653,459	1.00 – 3.25%
2012	675,000	3.75%
2012	8,010,000	2.00 – 2.375%
2013	975,000	0.70 – 1.100%
2014	480,000	3.00 – 4.00%
2015	1,235,000	2.10 – 3.30%
2016	4,415,000	2.00 – 3.00%

The District, through the General Fund, the Facility Support Program (FSPK) Fund, and the SEEK Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Hancock County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 2007, 2012, 2014, 2015, and 2016 the District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The table below sets forth the District's responsibility to make future debt service payments, and the amount to be paid by the Commission, for each year until maturity of all bond issues.

The bonds may be called prior to maturity with redemption premiums specified in each issue. Assuming no bonds are called prior to scheduled maturity, the District's minimum obligations, including amounts to be paid by the Commission, as of June 30, 2018 for debt service (principal and interest) are as follows:

<u>Fiscal Year Ending</u>	<u>Hancock County School District</u>		<u>Kentucky School Facility Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2019	\$ 530,648	\$ 129,687	\$ 650,868	\$ 148,864	\$ 1,460,067
2020	438,500	120,903	651,500	135,106	1,346,009
2021	447,548	112,155	662,452	121,275	1,343,430
2022	451,377	103,176	678,623	107,224	1,340,400
2023	469,412	93,643	690,588	92,190	1,345,833

Fiscal Year Ending	Hancock County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2024	\$ 486,608	\$ 83,133	\$ 703,392	\$ 76,221	\$ 1,349,354
2025	536,915	67,365	238,085	59,370	901,735
2026	558,917	53,612	246,083	52,925	911,537
2027	570,229	36,675	249,771	44,882	901,557
2028	588,191	19,299	236,809	37,053	881,352
2029	172,516	7,888	162,484	30,520	373,408
2030	176,678	2,650	173,322	24,850	377,500
2031	-	-	145,000	19,227	164,227
2032	-	-	105,000	14,030	119,030
2033	-	-	105,000	10,355	115,355
2034	-	-	115,000	6,680	121,680
2035	-	-	80,000	2,640	82,640
	<u>\$ 5,427,539</u>	<u>\$ 830,186</u>	<u>\$ 5,893,977</u>	<u>\$ 983,412</u>	<u>\$ 13,135,114</u>

A summary of the changes in the outstanding bonds during the fiscal year ended June 30, 2018 is as follows:

Issue	Balance July 1, 2017	Additions	Payments	Balance June 30, 2018
2007	\$ 95,000	\$ -	\$ 95,000	\$ -
2009	140,329	-	68,813	71,516
2012	515,000	-	30,000	485,000
2012	5,470,000	-	615,000	4,855,000
2013	385,000	-	190,000	195,000
2014	420,000	-	20,000	400,000
2015	1,135,000	-	50,000	1,085,000
2016	4,320,000	-	90,000	4,230,000
Totals	<u>\$ 12,480,329</u>	<u>\$ -</u>	<u>\$ 1,158,813</u>	<u>\$ 11,321,516</u>

6. Accumulated unpaid sick leave benefits

Upon retirement from the District, eligible employees will receive an amount equal to 30% of the value of accumulated sick leave.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid accumulated sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the accumulated sick leave payable account in the General Fund. The noncurrent portion of the liability is not reported.

A summary of the changes in the accumulated unpaid sick leave benefits during the fiscal year ended June 30, 2018 is as follows:

Balance as of July 1, 2017	\$ 411,348
Additions	52,253
Less payments/forfeitures	<u>34,253</u>
Balance as of June 30, 2018	429,348
Less current portion	<u>108,348</u>
Noncurrent portion	<u><u>\$ 321,000</u></u>

7. Commitments and contingencies

The District receives funding from federal and state government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantors' review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of funds advanced, or refuse to reimburse the District for its disbursements. The collectability of any related receivables as of June 30, 2018 may be impaired. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

8. Retirement and other postemployment benefit plans

District employees are provided with two pension plans based on each position's college degree requirement. CERS covers employees whose position does not require a college degree or teaching certification. TRS covers positions requiring teaching certification or otherwise requiring a college degree.

General information about CERS

Plan description – Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky (the Commonwealth). Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <https://kyret.ky.gov/>.

Benefits provided – CERS provides retirement, health insurance, and death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old, or at least 25 years service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old, or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old, or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the Kentucky General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years of service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay, and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years of service is required for nonservice-related disability benefits.

Contributions – Required contributions as determined by the Kentucky Retirement System Board of Trustees by the employee are based on the tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

The District matches at a rate of 19.18% (18.68% for 2017, used in measurement period) of the employee's total covered compensation. The District's matching contributions total \$498,844 (\$475,330 for 2017, used in measurement period) for the year ended June 30, 2017.

General information about TRS

Plan description – The District's teaching certified employees and certain other employees whose positions require at least a college degree are provided pensions through TRS – a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth of Kentucky. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. TRS is a blended component unit of the Commonwealth of Kentucky, and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://www.trs.ky.gov/financial-reports-information>.

Benefits provided – For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either attain age fifty-five and complete five years of Kentucky service, or complete 27 years of Kentucky service.

Employees who retire before age 60 with less than 27 years of service receive reduced retirement benefits. Employees with an account established prior to July 1, 2002 receive monthly payments equal to 2% (service prior to July 1, 1983) and 2.5% (service after July 1, 1983) of their final average salaries for each year of credited service. Employees hired (including second retirement accounts) after July 1, 2002 and before July 1, 2008 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. Employees after July 1, 2002 and before July 1, 2008 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Employees hired after July 1, 2008 will receive monthly

benefits equal to 1.7% of their final average salary for each year of service if, upon retirement, their total service is less than ten years; 2% if their years of service are ten to twenty years; 2.5% if their years of service are twenty to twenty-five years; and 2.5% if their service exceeds 26 years.

Final average salary is defined as the member's five highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three highest annual salaries to compute the final average salary. TRS also provides disability benefits for vested employees at the rate of 60% of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees, and \$5,000 for retired or disabled employees.

Cost of living increases are 1.5% annually. Additional ad hoc increases and any other benefit amendments must be authorized by the Kentucky General Assembly.

Contributions – Contribution rates are established by KRS. Employees are required to contribute 12.855% (12.855% for 2017, used in measurement period) of their salaries to TRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for employees hired before July 1, 2008, and 14.105% for those hired after July 1, 2008. For employees whose salaries are federally funded, the District contributes 16.105% (16.105% for 2017, used in measurement period) of salaries. If an employee leaves covered employment before accumulating five years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the employee's request.

Other retirement plans

The District also offers employees three options to participate in a 403(b) Plan under Section 403(b), 401(k), and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate in the American Fidelity, Lincoln, or 403B ASP plans, and may contribute up to the maximum amount allowable by law. Members contributed approximately \$165,000 during the year ended June 30, 2018. The District does not contribute to these plans.

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, KRS 161.675 requires TRS to provide post-employment healthcare benefits to eligible employees and dependents. The TRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance, and the Kentucky General Assembly.

To be eligible for medical benefits, the employee must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Funding policy – In order to fund the post-retirement healthcare benefit, 7.5% of the gross annual payroll of all certified employees is contributed. 3.75% of the amount is paid by employee contributions, 3% from the employer, with the remainder coming from the Commonwealth. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the plan's medical expenses.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

As of June 30, 2018, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for TRS because the Commonwealth provides the pension support directly to TRS on the District's behalf. The approximate amount recognized by the District and the Commonwealth as its proportionate share of the net pension liability were as follows:

District's proportionate share of the CERS net pension liability	\$ 6,120,000
Commonwealth's proportionate share of the TRS net liability associated with the District	66,274,000

The net pension liability for each plan was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportionate share of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of CERS as determined by the actuary. At June 30, 2017, the District's proportion was 0.10%.

For the year ended June 30, 2018, the District recognized pension expense totaling approximately \$671,000 related to CERS.

The District reported deferred outflows of resources and deferred inflows of resources related to pension expense from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 47,381	\$ 155,351
Changes of assumptions	1,612,116	-
Net difference between projected and actual earnings on pension plan investments	883,238	559,398
Changes in proportion and differences between District contributions and proportionate share of contributions	126,270	126,273
District contributions subsequent to the measurement date	<u>498,844</u>	<u>-</u>
Total	<u>\$ 3,167,849</u>	<u>\$ 841,022</u>

Deferred outflows and deferred inflows related to pension expense will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2019	\$ 1,106,747	\$ 216,972
2020	607,903	216,972
2021	607,900	141,772
2022	498,864	141,770
2023	346,435	123,536

Actuarial assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>TRS</u>
Inflation	3.25%	3.00%
Projected salary increases	4.00%	3.5 – 7.3%
Investment rate of return, net of investment expense and inflation	7.50%	7.50%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000

Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

For TRS, mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025, set forward two years for males and one year for females.

In 2017 the Investment Committee of the CERS approved new target asset allocations in an attempt to reduce the public equity exposure in favor of fixed income. The target asset allocation for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>
U.S. equity	25.6%
Broad market international equities	25.2%
Global fixed income	6.8%
Credit fixed income	7.2%
Private equity	10.0%
Real return	8.0%
Absolute return	10.0%
Real estate	5.0%
Cash equivalents	<u>2.2%</u>
Total	<u>100.0%</u>

For TRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. equity	42.0%	4.4%
International equity	20.0%	5.3%
Fixed-income	16.0%	1.5%
Additional categories	9.0%	3.6%
Real estate	5.0%	4.4%
Private equity	6.0%	6.7%
Cash	<u>2.0%</u>	0.8%
Total	<u>100.0%</u>	

Discount rate – For CERS, the discount rate used to measure the total pension liability was 6.25%. This single discount rate was based on the expected rate of return on pension plan investments. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the single discount rate assumes that the participating employers contribute the actuarially determined contribution rate in all future years.

For TRS, the discount rate used to measure the total pension liability was 4.49%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2038 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Investment Rate (SEIR). There was a change in the Municipal Bond Index Rate from the prior Measurement Date to the Measurement Date, so as required under GASB 68, the SEIR at the Measurement Date of 4.49% was calculated using the Municipal Bond Index Rate as of the Measurement Date (3.56%). This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 68.

Sensitivity of CERS and TRS proportionate share of net pension liability to changes in the discount rate – The following table presents the District's net pension liability, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is one percentage point lower, or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	7,719,000	6,120,000	4,783,000
TRS	3.49%	4.49%	5.49%
District's proportionate share of net pension liability	-	-	-

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and TRS.

OPEB Liabilities, OPEB Expense, and Deferred Outflows and Inflows of Resources Related to OPEBs

As of June 30, 2018, the District reported a liability of \$2,101,933 and \$4,639,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District for CERS and TRS, respectively. The collective net OPEB liabilities were measured as of June 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the District's proportion was .10% for CERS which remained the same as the prior year, and the District's proportion was .24% for TRS, which remained the same as the prior year.

The amount recognized by the District as its proportionate share of the TRS OPEB liability, the related Commonwealth's support, and the total portion of the net TRS OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	\$ 4,639,000
Commonwealth's proportionate share of the net OPEB liability associated with the District	<u>3,790,000</u>
Total	<u>\$ 8,429,000</u>

For the year ended June 30, 2018, the District recognized OPEB expense of \$434,833 and revenue of \$184,314 for support provided by the Commonwealth for TRS. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

CERS

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 5,838
Changes of assumptions	457,367	-
Net difference between projected and actual earnings on pension plan investments	-	99,336
Changes in proportion and differences between District contributions and proportionate share of contributions	<u>-</u>	<u>4,877</u>
Total CERS	457,367	110,051

TRS

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 60,000
District contributions subsequent to the measurement date	<u>231,923</u>	<u>-</u>
Total TRS	<u>231,923</u>	<u>60,000</u>
Combined CERS and TRS	<u>\$ 689,290</u>	<u>\$ 170,051</u>

Deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

CERS

Year ended June 30:	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 91,473	\$ 22,010
2020	91,473	22,010
2021	91,473	22,010
2022	91,473	22,010
2023	91,475	22,011

TRS

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Year ended June 30:		
2019	\$ 231,923	\$ 12,000
2020	-	12,000
2021	-	12,000
2022	-	12,000
2023	-	12,000

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

CERS

Investment rate of return	6.25%
Projected salary increases	3.05%
Inflation rate	2.30%
Real wage growth	2.00%
Wage inflation	2.30%
Healthcare cost trend rates	
Under 65	7.25% trend starting at January 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Ages 65 and Older	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years
Municipal bond index rate	3.56%
Discount rate	5.84%
Single Equivalent Interest Rate	5.84%, net of OPEB plan investment expense, including inflation

TRS

Investment rate of return	7.50% (Life insurance) – 8.00% (Health insurance)
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real wage growth	0.50%
Wage inflation	3.5%

Healthcare cost trend rates

Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and Older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B Premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Municipal bond index rate	3.56%
Discount rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation

For CERS the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

For TRS mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement. The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

For TRS the long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
Global Equity	60.0%	5.1%
Fixed Income	9.0%	1.2%
Real Estate	4.5%	4.0%
Private Equity	5.5%	6.6%
High Yield	10.0%	4.3%
Other Additional Categories*	10.0%	3.3%
Cash (LIBOR)	<u>1.0%</u>	0.5%
Total	<u>100.0%</u>	

* Modeled as 50% High Yield and 50% Bank Loans.

The CERS did not provide investment assumptions for OPEB that differed from the assumptions used for the pension liability.

Discount rate – For CERS the projection of cash flows used to determine the discount rate of 5.84% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CERS's Comprehensive Annual Financial Report.

For TRS the discount rate used to measure the total OPEB liability for TRS was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District's proportionate share of the collective net OPEB liability, calculated using the discount rate, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

CERS			
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net OPEB liability	\$ 2,674,593	\$ 2,101,933	\$ 1,625,390

TRS			
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net OPEB liability	\$ 5,402,000	\$ 4,639,000	\$ 4,004,000

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

CERS			
	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Net OPEB liability	\$ 1,612,290	\$ 2,101,933	\$ 2,738,439

TRS			
Net OPEB liability	\$ 3,883,000	\$ 4,639,000	\$ 5,567,000

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERS or TRS financial report.

9. On-behalf payments for fringe benefits and other District expenditures

The District receives on-behalf payments for fringe benefits and other District expenditures from the Commonwealth. The following amounts are included as revenues and expenses/expenditures on the statement of activities, and the statement of revenues, expenditures, and changes in fund balances:

Retirement contributions to TRS	\$ 2,538,976
Health and life insurance	1,613,290
Technology	66,050
Debt service	787,155
KISTA lease	<u>15,154</u>
Total	<u>\$ 5,020,625</u>

10. Insurance, risk management, and related activities

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc.; and risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, natural disasters, workers compensation, unemployment, etc. Each of these risk areas is covered through the purchase of commercial insurance.

The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance. Premiums are accrued based on the ultimate cost of the experience to date of a group of entities.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. Deficit operating/fund balances

There are no District funds that currently have a deficit fund balance. However, the General Fund, the Day Care Fund, and the Community Education Fund had operations that resulted in a current year operating loss resulting in a corresponding reduction of fund balance.

12. COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss contingency.

13. Transfer of funds

The following transfers were made during the year ended June 30, 2017:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	Matching	\$ 31,630
Debt Service	General	Debt Service	Debt payments	95,803
Operating	FSPK	General	Administrative	27,539
Debt Service	FSPK	Debt Service	Debt payments	562,125
Operating	SEEK Capital Outlay	General	Administrative	150,617
Operating	Special Revenue	Special Revenue	Reallocation	14,930

14. Interfund receivables and payables

There were no interfund receivables or payables as of June 30, 2018.

SUPPLEMENTARY INFORMATION

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND Year ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
From local sources:				
Taxes:				
Property	\$ 3,700,000	\$ 3,800,000	\$ 4,812,759	\$ 1,012,759
Motor vehicle	235,000	240,000	253,456	13,456
Utilities	1,000,000	1,000,000	1,231,430	231,430
Earnings on investments	35,000	35,000	49,948	14,948
Tuition and fees	4,000	4,000	-	(4,000)
Other local	268,510	268,510	280,942	12,432
Intergovernmental – State	5,557,244	5,557,244	9,997,452	4,440,208
Intergovernmental – Federal	50,000	55,000	22,461	(32,539)
Total revenues	10,849,754	10,959,754	16,648,448	5,688,694
Expenditures				
Current:				
Instruction	7,487,114	7,606,643	10,335,121	(2,728,478)
Student support services	707,738	707,173	786,912	(79,739)
Instructional staff support services	607,352	613,402	641,953	(28,551)
District administration	828,423	828,423	670,627	157,796
School administration	943,865	948,920	1,026,433	(77,513)
Business support services	447,244	447,244	501,611	(54,367)
Plant operations and maintenance	1,559,927	1,589,127	1,492,054	97,073
Student transportation	1,265,797	1,267,297	1,283,897	(16,600)
Non-instructional	5,500	5,500	164	5,336
Community services	24,255	24,255	21,766	2,489
Contingency	336,760	335,991	-	335,991
Total expenditures	14,213,975	14,373,975	16,760,538	(2,386,563)
Excess (deficit) of revenues over (under) expenditures	(3,364,221)	(3,414,221)	(112,090)	3,302,131
Other financing sources (uses)				
Miscellaneous	-	-	40,000	40,000
Operating transfers in	181,023	181,023	178,156	(2,867)
Operating transfers out	(116,802)	(116,802)	(127,433)	(10,631)
Total other financing sources (uses)	64,221	64,221	90,723	26,502
Net change in fund balance	(3,300,000)	(3,350,000)	(21,367)	3,328,633
Fund balance as of July 1, 2017	4,492,577	4,492,577	4,492,577	-
Fund balance as of June 30, 2018	<u>\$ 1,192,577</u>	<u>\$ 1,142,577</u>	<u>\$ 4,471,210</u>	<u>\$ 3,328,633</u>

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS Year ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	\$ -	\$ -	\$ 16,492	\$ 16,492
Intergovernmental – State	836,893	836,930	721,937	(114,993)
Intergovernmental – Federal	<u>694,979</u>	<u>679,674</u>	<u>650,662</u>	<u>(29,012)</u>
Total revenues	1,531,872	1,516,604	1,389,091	(127,513)
Expenditures				
Current:				
Instruction	914,997	915,035	901,593	13,442
Student support services	66,194	66,194	53,488	12,706
Instructional staff support services	322,954	307,648	239,497	68,151
District administration	-	-	32,131	(32,131)
School administration	-	-	26,068	(26,068)
Business support services	37,492	37,492	167,944	(130,452)
Student transportation	52,930	52,930	-	52,930
Community services	<u>158,305</u>	<u>158,305</u>	<u>-</u>	<u>158,305</u>
Total expenditures	<u>1,552,872</u>	<u>1,537,604</u>	<u>1,420,721</u>	<u>116,883</u>
(Deficit) excess of revenues (under) over expenditures	(21,000)	(21,000)	(31,630)	(10,630)
Other financing sources (uses)				
Operating transfers in	21,000	21,000	46,560	25,560
Operating transfers out	<u>-</u>	<u>-</u>	<u>(14,930)</u>	<u>(14,930)</u>
Total other financing sources (uses)	<u>21,000</u>	<u>21,000</u>	<u>31,630</u>	<u>10,630</u>
Net change in fund balance	-	-	-	-
Fund balance as of July 1, 2017	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – COUNTY EMPLOYEES RETIREMENT SYSTEM

Years ended June 30, 2018, 2017, 2016, and 2015

District's proportion of the net pension liability	
2018 (2017 measurement period)	0.10%
2017 (2016 measurement period)	0.10%
2016 (2015 measurement period)	0.10%
2015 (2014 measurement period)	0.10%
District's proportionate share of the net pension liability	
2018 (2017 measurement period)	\$ 6,119,984
2017 (2016 measurement period)	4,977,871
2016 (2015 measurement period)	4,493,176
2015 (2014 measurement period)	3,372,000
District's covered-employee payroll	
2018 (2017 measurement period)	\$ 2,484,649
2017 (2016 measurement period)	2,411,794
2016 (2015 measurement period)	2,426,802
2015 (2014 measurement period)	2,383,743
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	
2018 (2017 measurement period)	246.31%
2017 (2016 measurement period)	206.40%
2016 (2015 measurement period)	185.15%
2015 (2014 measurement period)	141.46%
Plan fiduciary net position as a percentage of the total pension liability	
2018 (2017 measurement period)	53.32%
2017 (2016 measurement period)	55.50%
2016 (2015 measurement period)	59.97%
2015 (2014 measurement period)	66.80%

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS – COUNTY EMPLOYEES RETIREMENT SYSTEM Years ended June 30, 2018, 2017, 2016, and 2015

Contractually required contribution	
2018 (2017 measurement period)	\$ 475,330
2017 (2016 measurement period)	411,452
2016 (2015 measurement period)	431,000
2015 (2014 measurement period)	450,289
Contributions in relation to the contractually required contribution	
2018 (2017 measurement period)	\$ 475,330
2017 (2016 measurement period)	411,452
2016 (2015 measurement period)	431,000
2015 (2014 measurement period)	450,289
Contribution deficiency (excess)	
2018 (2017 measurement period)	\$ -
2017 (2016 measurement period)	-
2016 (2015 measurement period)	-
2015 (2014 measurement period)	-
District's covered-employee payroll	
2018 (2017 measurement period)	\$ 2,544,593
2017 (2016 measurement period)	2,411,794
2016 (2015 measurement period)	2,426,802
2015 (2014 measurement period)	2,383,743
Contributions as a percentage of covered-employee payroll	
2018 (2017 measurement period)	18.68%
2017 (2016 measurement period)	17.06%
2016 (2015 measurement period)	17.76%
2015 (2014 measurement period)	18.89%

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – COUNTY EMPLOYEES RETIREMENT SYSTEM

Year ended June 30, 2018

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (June 30, 2017 measurement period).

Changes of assumptions – Since the prior measurement date (June 30, 2016), the demographic and economic assumptions that affect the measurement of the total pension liability have not been updated. The discount rate used was lowered from 7.5% (2016 measurement date) to 6.25% (2017 measurement date).

Assets accumulated in trust – There are no assets accumulated in trust that meets the GASB criteria to pay pension benefits.

Periods covered by the required supplementary information – GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for four fiscal years and will expand this supplementary information in future financial statements to cover additional periods as they become available.

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF COMMONWEALTH OF KENTUCKY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – TEACHERS' RETIREMENT SYSTEM

Years ended June 30, 2018, 2017, 2016, and 2015

Commonwealth of Kentucky's proportion of the
net pension liability

2018 (2017 measurement period)	0.25%
2017 (2016 measurement period)	0.23%
2016 (2015 measurement period)	0.23%
2015 (2014 measurement period)	0.22%

Commonwealth of Kentucky's proportionate share
of the net pension liability

2018 (2017 measurement period)	\$ 66,273,667
2017 (2016 measurement period)	72,079,974
2016 (2015 measurement period)	56,460,482
2015 (2014 measurement period)	47,456,512

Plan fiduciary net position as a percentage of the
total pension liability

2018 (2017 measurement period)	39.83%
2017 (2016 measurement period)	35.22%
2016 (2015 measurement period)	42.49%
2015 (2014 measurement period)	45.59%

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF COMMONWEALTH OF KENTUCKY'S CONTRIBUTIONS – TEACHERS' RETIREMENT SYSTEM

Years ended June 30, 2018, 2017, 2016, and 2015

Commonwealth of Kentucky statutorily required contribution

2018 (2017 measurement period)	\$ 2,354,661
2017 (2016 measurement period)	1,186,011
2016 (2015 measurement period)	1,167,059
2015 (2014 measurement period)	1,118,328

Commonwealth of Kentucky contributions in relation to the statutorily required contribution

2018 (2017 measurement period)	\$ 2,354,661
2017 (2016 measurement period)	1,186,011
2016 (2015 measurement period)	1,167,059
2015 (2014 measurement period)	1,118,328

Commonwealth of Kentucky annual contribution deficiency (excess)

2018 (2017 measurement period)	\$ -
2017 (2016 measurement period)	-
2016 (2015 measurement period)	-
2015 (2014 measurement period)	-

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – TEACHERS' RETIREMENT SYSTEM

Year ended June 30, 2018

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (June 30, 2017 measurement period).

Changes of assumptions – Since the prior measurement date (June 30, 2016) the demographic and economic assumptions that affect the measurement of total pension liability have not been updated. The SEIR rate was increased from 4.20% (2016 measurement date) to 4.49% (2017 measurement date), the inflation rate was lowered from 3.5% (2016 measurement date) to 3.0% (2017 measurement date), the salary increases were lowered from 4.0 – 8.2% (2016 measurement date) to 3.5 – 7.3% (2017 measurement date), the municipal bond index rate was raised from 3.01% (2016 measurement date) to 3.56% (2017 measurement date), and the discount rate was raised from 4.2% (2016 measurement date) to 4.49% (2017 measurement date).

Assets accumulated in trust – There are no assets accumulated in trust that meet the GASB criteria to pay pension benefits.

Periods covered by the required supplementary information – GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for four fiscal years and will expand this supplementary information in future financial statements to cover additional periods as they become available. Since the Commonwealth of Kentucky makes all retirement contributions, the District does not have a liability and has not included any District amount in the required supplementary information.

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY – COUNTY EMPLOYEES RETIREMENT SYSTEM Year ended June 30, 2018

District's proportion of the net OPEB liability 2018 (2017 measurement period)	0.10%
District's proportionate share of the net OPEB liability 2018 (2017 measurement period)	\$ 2,101,933
District's covered-employee payroll 2018 (2017 measurement period)	\$ 2,484,649
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll 2018 (2017 measurement period)	84.6%
Plan fiduciary net position as a percentage of the total OPEB liability 2018 (2017 measurement period)	52.4%

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS – COUNTY EMPLOYEES RETIREMENT SYSTEM Year ended June 30, 2018

Contractually required contribution 2018 (2017 measurement period)	\$ 120,411
Contributions in relation to the contractually required contribution 2018 (2017 measurement period)	\$ 120,411
Contribution deficiency (excess) 2018 (2017 measurement period)	\$ -
District's covered-employee payroll 2018 (2017 measurement period)	\$ 2,484,649
Contributions as a percentage of covered-employee payroll 2018 (2017 measurement period)	4.85%

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – COUNTY EMPLOYEES RETIREMENT SYSTEM

Year ended June 30, 2018

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (June 30, 2017 measurement period).

Changes of assumptions – Since the prior measurement date (June 30, 2016), the demographic and economic assumptions that affect the measurement of the total pension liability have not updated.

Assets accumulated in trust – There are no assets accumulated in trust that meets the GASB criteria to pay pension benefits.

Periods covered by the required supplementary information – GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for one fiscal year and will expand this supplementary information in future financial statements to cover additional periods as they become available.

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY –TEACHERS' RETIREMENT SYSTEM Year ended June 30, 2018

District's proportion of the net OPEB liability 2018 (2017 measurement period)	0.31%
District's proportionate share of the net OPEB liability 2018 (2017 measurement period)	\$ 4,639,000
Commonwealth of Kentucky's proportionate share of the net OPEB liability 2018 (2017 measurement period)	<u>3,790,000</u>
Total 2018 (2017 measurement period)	<u>\$ 8,429,000</u>
District's covered payroll 2018 (2017 measurement period)	\$ 7,430,333
District's proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll 2018 (2017 measurement period)	62.44%
Plan fiduciary net position as a percentage of the total pension liability 2018 (2017 measurement period)	81.38%

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S CONTRIBUTIONS –TEACHERS' RETIREMENT SYSTEM Year ended June 30, 2018

Contractually required contribution 2018 (2017 measurement period)	\$ 222,910
Commonwealth of Kentucky's contractually required contribution 2018 (2017 measurement period)	\$ 182,085
Contributions in relation to the statutorily required contribution 2018 (2017 measurement period)	\$ 404,995
Contribution deficiency (excess) 2018 (2017 measurement period)	\$ -
District's covered employee payroll 2018 (2017 measurement period)	\$ 7,430,333
Contributions as a percentage of covered-employee payroll 2018 (2017 measurement period)	5.45%

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –TEACHERS' RETIREMENT SYSTEM

Year ended June 30, 2018

Changes of benefit terms – With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 is restored, but the Commonwealth will only finance, via its KEHP "Shared Responsibility" contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

Changes of assumptions – Since the prior measurement date (June 30, 2016) the demographic and economic assumptions that affect the measurement of total pension liability have not been updated.

Assets accumulated in trust – There are no assets accumulated in trust that meet the GASB criteria to pay pension benefits.

Periods covered by the required supplementary information – GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for one fiscal year and will expand this supplementary information in future financial statements to cover additional periods as they become available.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS – MIDDLE AND ELEMENTARY SCHOOL ACTIVITY FUNDS

Year ended June 30, 2018

<u>School</u>	<u>Cash</u> <u>July 1,</u> <u>2017</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash</u> <u>June 30,</u> <u>2018</u>	<u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2018</u>	<u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2018</u>	<u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2018</u>
North Hancock Elementary School	\$ 31,491	\$ 98,910	\$ 94,866	\$ 35,535	\$ -	\$ 3,031	\$ 32,504
South Hancock Elementary School	26,943	33,101	37,381	22,663	-	-	22,663
Hancock County Middle School	<u>86,588</u>	<u>115,601</u>	<u>96,945</u>	<u>105,244</u>	<u>2,910</u>	<u>816</u>	<u>107,338</u>
Totals	<u>\$ 145,022</u>	<u>\$ 247,612</u>	<u>\$ 229,192</u>	<u>\$ 163,442</u>	<u>\$ 2,910</u>	<u>\$ 3,847</u>	<u>\$ 162,505</u>

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS

Year ended June 30, 2018

Activity Fund	Cash July 1, 2017	Receipts	Disbursements	Interfund Transfers	Cash June 30, 2018	Accounts Receivable June 30, 2018	Accounts Payable June 30, 2018	Due to Student Groups June 30, 2018
General	\$ 2,905	\$ 15,154	\$ 14,601	\$ (677)	\$ 2,781	\$ 1,313	\$ 1,411	\$ 2,683
Teachers lounge	302	1,026	783	-	545	-	-	545
Vending	675	2,822	1,598	(85)	1,814	-	-	1,814
Fundraisers	424	1,154	312	(154)	1,112	-	-	1,112
Flower and gift fund	44	358	262	-	140	-	-	140
Gate receipts	15,064	53,499	5,172	(51,285)	12,106	-	6,617	5,489
Athletic department	-	3,046	7,016	3,970	-	-	-	-
Archery	-	-	935	935	-	582	-	582
Archery boosters	8,465	3,748	5,290	(15)	6,908	-	-	6,908
Baseball	-	3,837	7,682	3,845	-	815	-	815
Bass fishing	2,522	3,920	4,901	(86)	1,455	-	-	1,455
Boys basketball	-	-	8,087	8,087	-	-	-	-
Boys basketball boosters	7,643	31,780	27,486	(1,689)	10,248	-	-	10,248
Cross country	-	-	3,660	3,660	-	283	-	283
Cross country boosters	2,791	2,561	4,581	-	771	-	-	771
Football	-	-	14,931	14,931	-	2,381	-	2,381
Football boosters	7,505	29,484	26,275	(2,936)	7,778	2,447	2,600	7,625
Football uniforms	2,400	-	-	2,400	4,800	-	-	4,800
Girls basketball	-	-	3,497	3,497	-	-	-	-

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS – HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED

Year ended June 30, 2018

Activity Fund	Cash July 1, 2017	Receipts	Disbursements	Interfund Transfers	Cash June 30, 2018	Accounts Receivable June 30, 2018	Accounts Payable June 30, 2018	Due to Student Groups June 30, 2018
Girls basketball boosters	\$ 3,379	\$ 9,576	\$ 7,650	\$ 1,891	\$ 7,196	-	-	\$ 7,196
Golf	-	90	1,725	1,635	-	-	-	-
Golf boosters	868	2,104	2,496	-	476	-	-	476
Softball	-	-	6,045	6,045	-	975	-	975
Tennis	-	-	864	864	-	264	-	264
Tennis boosters	869	2,101	902	-	2,068	-	-	2,068
Track	-	-	1,629	1,629	-	575	-	575
Track and XC boosters	1,241	12,396	10,395	267	3,509	-	-	3,509
Volleyball	-	-	3,482	3,482	-	-	-	-
Volleyball boosters	5,622	18,107	18,233	3,081	8,577	-	-	8,577
Tri-Concessions	2,001	16,524	10,583	(5,942)	2,000	-	-	2,000
Tournament	-	685	-	(685)	-	-	-	-
State tournament	-	1,807	3,664	1,857	-	-	-	-
Academic team	760	1,130	2,010	120	-	-	-	-
Arts and Humanities	161	-	161	-	-	-	-	-
Beta Club	476	1,290	1,364	20	422	-	-	422
Cheerleaders	46	-	1,562	1,516	-	-	-	-
Cheer booster	1,679	23,154	22,414	(971)	1,448	-	-	1,448

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS – HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED

Year ended June 30, 2018

Activity Fund	Cash July 1, 2017	Receipts	Disbursements	Interfund Transfers	Cash June 30, 2018	Accounts Receivable June 30, 2018	Accounts Payable June 30, 2018	Due to Student Groups June 30, 2018
Cheer scholarship	\$ 60	\$ -	\$ -	\$ -	\$ 60	\$ -	\$ -	\$ 60
FBLA	682	6,475	5,815	(830)	512	-	-	512
FCA	-	371	77	352	646	-	-	646
FFA	128	15,068	15,510	995	681	-	-	681
FHA	723	1,027	1,079	(225)	446	-	-	446
FCCLA Regional	820	46	529	-	337	-	-	337
Art Club	-	-	-	30	30	-	-	30
Young Republicans	-	1,378	634	(33)	711	-	-	711
Young Democrats	-	495	605	111	1	-	-	1
Pep Club	311	2,492	2,079	(60)	664	-	-	664
Reading Club	389	-	-	-	389	-	-	389
Spanish Club	893	3,103	2,976	25	1,045	-	-	1,045
Social Studies Club	12	-	-	-	12	-	-	12
Student Council	38	-	-	-	38	-	-	38
TSA	-	3,402	2,755	-	647	-	-	647
HOSA	6	-	-	-	6	-	-	6
Safe committee	623	-	-	-	623	-	-	623
Business	434	349	270	-	513	-	-	513
Chorus	7,134	12,891	10,181	(1,000)	8,844	-	-	8,844

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS – HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED

Year ended June 30, 2018

Activity Fund	Cash July 1, 2017	Receipts	Disbursements	Interfund Transfers	Cash June 30, 2018	Accounts Receivable June 30, 2018	Accounts Payable June 30, 2018	Due to Student Groups June 30, 2018
Community Based Education	\$ 2,359	\$ 7,751	\$ 6,983	\$ -	\$ 3,127	\$ -	\$ -	\$ 3,127
Special Ed Fundraiser	1,924	-	182	-	1,742	-	-	1,742
Family Consumer Science	690	2,238	2,369	-	559	-	-	559
Theatre	5,177	3,112	3,290	1,000	5,999	-	-	5,999
Yearbook	9,671	9,764	7,800	(30)	11,605	-	-	11,605
Spoken Word Society	106	170	305	145	116	-	-	116
C D Mayfield Scholar	354	-	-	-	354	-	-	354
Basil Veach scholarship	-	500	500	-	-	-	-	-
Scholarship	1,344	3,200	3,200	-	1,344	-	-	1,344
Memorial Garden	126	-	-	-	126	-	-	126
Textbook rental	7,186	-	-	-	9,632	-	-	9,632
Poster printer	6	41,223	38,747	(30)	35	-	-	35
Field trips	27	77	71	100	(98)	98	-	-
Student/staff need	246	1,365	302	100	508	-	-	508
Prom account	4,286	5,595	1,078	(25)	1,346	-	-	1,346
Relay for Life	569	-	8,610	75	569	-	-	569
Summer school	1,342	400	-	-	1,742	-	-	1,742
KOSSA	17	-	-	-	17	-	-	17

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED

Year ended June 30, 2018

Activity Fund	Cash July 1, 2016	Receipts	Disbursements	Interfund Transfers	Cash June 30, 2017	Accounts Receivable June 30, 2017	Accounts Payable June 30, 2017	Due to Student Groups June 30, 2017
KYA	\$ 16	\$ 1,543	\$ 1,534	\$ -	\$ 25	\$ -	\$ -	\$ 25
After prom	2,090	1,316	2,050	-	1,356	-	-	1,356
Fletcher Thrasher S	179	528	457	-	250	-	-	250
IT scholarship	193	637	292	-	538	-	-	538
Emmick scholarship	-	950	-	-	950	-	-	950
Class of 1971	-	1,025	500	-	525	-	-	525
scholarship	-	5,999	6,188	325	3,192	-	-	3,192
Youth Service Center	3,056	2,541	2,033	10	595	-	-	595
IPad repairs	77	1,640	1,883	(242)	197	-	-	197
Class of 2018	682	-	-	-	470	-	-	470
Class of 2019	470	-	-	-	223	-	-	223
Class of 2020	223	-	-	-	-	-	-	-
Totals	\$ 122,511	\$ 380,024	\$ 363,132	\$ -	\$ 139,403	\$ 9,733	\$ 10,628	\$ 138,508

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
Cash expenditures			
<u>U.S. Department of Education</u>			
Kentucky Department of Education:			
Title I	84.010	3100002-17	\$ 243,791
		3100002-16	39,946
		3100002-15	<u>7,603</u>
Subtotal			291,340
Special Education	84.027 *1	3810002-17	189,864
		3810002-16	79,738
		3810002-15	<u>1,194</u>
Subtotal			270,796
Special Education Preschool	84.173 *1	3800002-17	14,567
		3800002-16	<u>10,031</u>
Subtotal			24,598
Vocational Education Basic	84.048	3710002-17	6,860
Improving Teacher Quality	84.367	3230002-17	23,735
		3230002-16	<u>32,834</u>
Subtotal			56,569
Student Support and Academic Enrichment	84.424	3420002-17	<u>499</u>
Total U.S. Department of Education			650,662

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED Year ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Education: National School Lunch Program	10.555 *2	7750002-18 7750002-17	\$ 344,426 95,081 <u>439,507</u>
Subtotal			
National School Breakfast Program	10.553 *2	7760005-18 7760005-17	164,738 42,567 <u>207,305</u>
Subtotal			
Summer Food Service Program for Children	10.559 *2	7690024-18 7740023-18 7690024-17 7740023-17	48 454 1,913 18,315 <u>20,730</u>
Subtotal			<u>667,542</u>
Total U.S. Department of Agriculture			<u>1,318,204</u>
Total cash expenditures			
Non-cash expenditures			
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Agriculture: Food Donation	10.555 *2	Not Provided	<u>23,727</u>
Total federal expenditures			<u>\$ 1,341,931</u>
 *1 Special Education Cluster		Total	<u>\$ 295,394</u>
*2 Child Nutrition Cluster		Total	<u>\$ 691,269</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2018

1. Basis of presentation

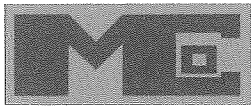
The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hancock County School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

2. Food donation

Nonmonetary assistance for food donation is reported in the schedule at the fair value of the commodities disbursed. These donations are received from the U.S. Department of Agriculture via the Kentucky Department of Agriculture (KDA). The KDA has not provided a pass-through grant number.

3. Indirect cost rate

The District does not apply the 10% de minimus indirect cost rate.



**M A T H E R
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SOLUTION-DRIVEN CPAs and Business Advisors

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**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Hancock County School District
Hawesville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities, and State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Report and Requirements – Audit Extension Request, and Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Submission Instructions* the financial statements of the governmental activities, the business-type activities, and each major fund of the Hancock County School District (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable

possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses (See finding 2018-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Kentucky Public School Districts' Audit Contract and Requirements – State Compliance Requirements*.

District's Response to Findings

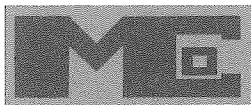
The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 12, 2018



**M A T H E R
& COMPANY**

SOLUTION-DRIVEN CPAs and Business Advisors

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Hancock County School District
Hawesville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Hancock County School District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirement of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities, and State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit*

Contract and Requirements – Audit Extension Request, and Appendix II to Kentucky Public School Districts’ Audit Contract and Requirements – Submission Instructions. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District’s compliance.

Basis for Qualified Opinion on Child Nutrition

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding CFDA numbers 10.555, 10.553, 10.559, and 10.555 as described in finding 2018-2 for Cash Management. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion on Child Nutrition

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Child Nutrition for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-2 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 12, 2018

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2018

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued

Unmodified

Internal control over financial reporting:

Material weakness identified

☒ Yes ☐ No

Significant deficiencies identified that are not considered to be material weaknesses

☐ Yes ☒ None reported

Noncompliance material to financial statement notes

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weaknesses identified

☒ Yes ☐ No

Significant deficiencies identified that are not considered to be material weaknesses

☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 200.516 of the Uniform Guidance

☐ Yes ☒ No

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

10.555/10.553/10.559

Child Nutrition

Dollar threshold used to distinguish between Type A and Type B program

\$ 750,000

Auditee qualified as low risk

☒ Yes ☐ No

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED Year ended June 30, 2018

Section II – Financial Statement Findings

Current Year Finding

2018-1 **Statement of deficiency:** Timely bank reconciliations were not performed on the school food service account.

Criteria for deficiency: The School Food Service Department did not reconcile cash to the bank statement during the year end close.

Cause of the deficiency: The School Food Service Department was not in compliance with District and Kentucky Department of Education policy.

Effect of the deficiency: An audit adjustment to increase cash and increase federal revenue for \$70,713 was made to correct the financial statements as of June 30, 2018.

Recommendation for correction: We recommend the District perform bank reconciliations as part of the monthly closing procedures on School Food Service. We additionally recommend an individual with the District is appointed to review the bank reconciliation on a monthly basis to ensure it is performed.

Board response: The Superintendent and the Director of Finance met with the Food Service Coordinator and discussed the importance of timely monthly bank reconciliations and how to balance to the monthly balance sheet. The Food Service Coordinator will continue to do the monthly bank reconciliations and will turn them in to the Director of Finance by the 15th of each month. The Director of Finance will receive the monthly bank reconciliations, a copy of the bank statement, and the reconciliation of the deposits for the month to ensure and verify that the reconciliation is correct each month. The Director of Finance has noted in the monthly financial checklist to true up Food Service deposits in the month of June.

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED Year ended June 30, 2018

Section III – Federal Award Findings

Current Year Finding

2018-2 Statement of deficiency: The District did not record federal revenue that it received for the May reimbursement for Child Nutrition.

Criteria for deficiency: The School Food Service Department did not have proper cash management controls.

Cause of the deficiency: The School Food Service Department was not in compliance with District and Kentucky Department of Education policy.

Effect of the deficiency: An audit adjustment to record federal revenue for \$70,713 was made to correct the balance as of June 30, 2018.

Recommendation for correction: We recommend the District perform bank reconciliations as part of the monthly closing procedures on School Food Service. We additionally recommend an individual with the District is appointed to review the bank reconciliation on a monthly basis to ensure it is performed.

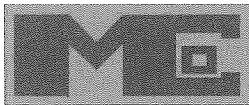
Board response: The Superintendent and the Director of Finance met with the Food Service Coordinator and discussed the importance of timely monthly bank reconciliations and how to balance to the monthly balance sheet. The Food Service Coordinator will continue to do the monthly bank reconciliations and will turn them in to the Director of Finance by the 15th of each month. The Director of Finance will receive the monthly bank reconciliations, a copy of the bank statement, and the reconciliation of the deposits for the month to ensure and verify that the reconciliation is correct each month. The Director of Finance has noted in the monthly financial checklist to true up Food Service deposits in the month of June.

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year ended June 30, 2018

There were no prior year audit findings.



**M A T H E R
& COMPANY**

SOLUTION-DRIVEN CPAs and Business Advisors

Mather & Co. CPAs, LLC
Suite 200
9100 Shelbyville Rd
Louisville, KY 40222

Members of the Board of Education
Hancock County School District
Hawesville, Kentucky

In planning and performing our audit of the basic financial statements of the Hancock County School District (District) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities*, and *State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Submission Instructions* we considered the District's internal control over financial reporting and compliance to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the District's internal control over financial reporting. In addition, providing an opinion on compliance was not an objective of our audit, and accordingly, we do not express such an opinion.

However, during our audit we became aware of instances of noncompliance that we do not consider to be material weaknesses or significant deficiencies, but are opportunities for strengthening internal control. In addition, we followed up on matters we noted in our previous audit. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 12, 2018 on the financial statements.

Respectfully,

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 12, 2018

HANCOCK COUNTY SCHOOL DISTRICT

**MANAGEMENT LETTER COMMENTS
JUNE 30, 2018**

ELEMENTARY, MIDDLE, AND HIGH SCHOOL ACTIVITY FUNDS

Follow-up on Prior Year Findings

SOUTH HANCOCK ELEMENTARY SCHOOL

Prior year comment: We noted instances where Redbook guidelines were not followed with regard to depositing receipts in a timely manner.

Current year follow-up: No similar instances were noted in the current year.

NORTH HANCOCK ELEMENTARY SCHOOL

Prior year comment: We noted an instance where Redbook guidelines were not followed with regard to one purchase order.

Current year follow-up: No similar instances were noted in the current year.

HANCOCK COUNTY HIGH SCHOOL

Prior year comment: We noted instances where Redbook guidelines were not followed with regard to depositing receipts in a timely manner.

Current year follow-up: No similar instances were noted in the current year.

Prior year comment: We noted instances where Redbook guidelines were not followed with regard to payment of sales tax for supplies.

Current year follow-up: No similar instances were noted in the current year.

HANCOCK COUNTY MIDDLE SCHOOL

Prior year comment: We noted instances where Redbook guidelines were not followed with regard to depositing receipts in a timely manner.

Current year follow-up: No similar instances were noted in the current year.

Prior year comment: We noted an instance where Redbook guidelines were not followed with regard to one purchase order.

Current year follow-up: No similar instances were noted in the current year.

Current Year Findings

NORTH HANCOCK ELEMENTARY SCHOOL

Statement of deficiency: We noted instances where Redbook guidelines were not followed with regard to depositing receipts in a timely manner.

Criteria for deficiency: Funds were not timely deposited after collection from the students.

Cause of the deficiency: Funds collected were not deposited within a day of the funds being collected from the students.

Effect of the deficiency: Redbook receipt guidelines were not followed.

Recommendation for correction: We recommend depositing all funds collected from students in accordance with Redbook guidelines.

Board response: The Director of Finance along with the school bookkeepers attended a Redbook Training by Ron Flannery on September 7, 2018. The purpose behind this training was to provide a refresher course to all current bookkeepers on proper Kentucky Activity Fund (Redbook) Accounting Procedures. The Director of Finance attended the new teacher orientation for School Year 2018-2019 to inform incoming teachers of Redbook Requirements regarding the Multiple Receipt forms and a timeline for turning in funds collected from students to the school bookkeeper. The Superintendent and Director of Finance will meet with the principal and bookkeeper at North Hancock Elementary School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed for depositing funds collected from students. We are hopeful that this training will prevent reoccurrence of these issues in future audits.